States and Small Business Health Insurance: An Overview

Updated: September 11, 2007

Small businesses often pay more for employee health benefits because they don't have the buying power of big employers. As both workers and small employers feel the financial squeeze, fewer are able to afford to offer, or purchase, health insurance coverage.

Here is how *USA Today* summarized the issue in a page one story in April:

Small businesses are driven crazy by soaring employee health costs, an expense that surveys show has become the biggest headache and obstacle to growth. Now, a growing army of consultants and benefits experts are promoting new health plans and services aimed at owners desperate to rein in costs.

Insurance brokers customize plans for small firms. Insurers cut deals for owners launching on-the-job worker "wellness" programs. Professional employer organizations combine dozens of small firms into big employee groups for discounted rates. And Health Savings Accounts (HSAs) crafted by Congress are now part of small firms' arsenal.

Congress (in March 2006) moved closer than ever to passing health care legislation to let small companies band together across state lines for discounts. President Bush endorsed the legislation again last week. But it's been debated for years without passage. [USA Today, 4/19/06]

For state policymakers, there is more to the story. The percentage of the nonelderly population (under age 65) with health insurance coverage declined in 2004 to a post-1994 low of 82.2 percent. However, it is the smallest of "small employers" that provide coverage least often - 72 percent of those with 10 to 24 employees, and only 47 percent of those with three to nine employees.

For policymakers seeking responses, some of the following resources may be of use. Note that fairly diverse strategies have been tried and proposed. These include:

- Health Savings Accounts (HSAs) and High Deductible Health Plans.
- Consumer-driven health insurance strategies such as cost and quality transparency.
- Exemptions or exceptions from state mandates.
- Tax credits and tax deductions for insurance costs.
- State Health Purchasing Pools or Cooperatives.
- MEWAs (Multiple Employer Welfare Arrangements) and AHPs (Association Health Plans).
- State High Risk Pools.
- Public-Private Partnerships, including subsidies.
- Universal health plans that emphasize small employer coverage.
- Small Group Insurance Reforms.

NCSL ONLINE RESOURCES

- **2004-2007 State Legislation on HEALTH SAVINGS ACCOUNTS and MEDICAL**

Featured Links

- NCSL Insurance and Managed Care overview
- Health Savings Accounts- NCSL report 2007
- Health Finance overview - NCSL resources
- State Programs to Subsidize or Reduce the Cost of Health Insurance for Small Businesses and Individuals - new from NCSL, 2007 NEW
- **Latest: WA Law, May '07**

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SMALL COMPANIES, BIG COSTS

Small businesses often pay more for employee health benefits. Small employers in 2005 were:

Hit with bigger rate increases:	
3 to 199 workers	9.8%
200 or more workers	8.9%
Less likely to insure employees (Offering health benefits, by firm size):	
3 to 9 workers	47%
10 to 24	72%
25 to 49	87%
50 to 199	93%
200 or more	98%
More likely to shop for new insurers (Considered new plan, by firm size):	

SAVINGS ACCOUNTS - NCSL report, updated 5/07.

- **State Programs to Subsidize or Reduce the Cost of Health Insurance for Small Businesses and Individuals** - from NCSL's Primary Care Project, 2007 NEW

- "**State Legislation Relating to Disclosure of Hospital and Health Charges**" - NCSL report, updated 3/07.

- "**Consumer Driven Health Insurance: New State Solutions in 2006?**" NCSL session at Spring Forum, April 7, 2006**.** From corporate boardrooms to the President's State of the Union, the idea of health savings accounts has attracted attention, support and nagging concerns. In 2005 at least 26 states enacted laws directly affecting health savings accounts and their associated high-deductible health insurance plans. These market-based tools are aimed at lowering premium costs and requiring increased consumer responsibility. Yet the "bare bones" policies often associated with such plans may leave a family with hefty charges for routine or not-so-routine medical services. This "mini-summit" 2 hour session examined facts, opinions and some unknowns. Funded in part by the Robert Wood Johnson Foundation and the NCSL Critical Health Areas Project CHAP). Speakers:

  - **Paul Fronstin [PowerPoint download / slides]** Ph.D., Director, HRET, Employee Benefit Research Institute
  - **Tracy Cassidy Watts [PowerPoint download / slides]**, Principal, Healthcare and Group Benefits, Mercer Co.
  - **Simmi Singh [PowerPoint download / slides]**, VP, Cognizant Technology Solutions, Chicago, IL

- **"The Changing Face of the Uninsured" -** NCSL State Health Lawmaker's Digest
- **"The New Controversial Thing: Health Savings Accounts" -** feature article in NCSL's State Health Notes, March 21, 2005.

> **NCSL Issue Brief: "Health Savings Accounts"** - published 3/05 [link for Legislators and Legislative Staff]. *

> **Small Business Health Fairness Act of 2005** (H.R.525, S.406) - In April 2006, this Congressional bill proposed to amend the Employee Retirement Income Security Act of 1974 (ERISA) to provide for the establishment and governance of association health plans (AHPs), which are group health plans whose sponsors are trade, industry, professional, chamber of commerce, or similar business associations, and which meet certain ERISA certification requirements. *See page 16 linked above; Update:* On May 11, 2006 this bill "went down in defeat on the Senate floor." The Senate leadership needed 60 votes to end debate on the bill, a vote for "cloture" but the vote failed, 55-43. Read NCSL's Federal Affairs staff summary and activities report on the 2006 measures in the U.S. Congress. April 2006.

ADDITIONAL EXPERT RESOURCES AND OPINIONS

NOTE: NCSL provides links to other Web sites from time to time for information purposes only. Providing these links does not necessarily indicate NCSL's support or endorsement of the site.

- **Small Group Health Insurance in 2006: A Comprehensive Survey of Premiums, Consumer Choices, and Benefits (Slides)**

A comprehensive survey of member companies offering coverage in the small group health insurance market, with premium and benefit data from more than 650,000 small groups covering 4 million workers and 3.2 million dependents. Published by AHIP, 9/06. PDF, 28 pp.

- **"Sources of Health Insurance and Characteristics of the**

3 to 199 workers	60%
200 to 999	56%
1,000 to 4,999	40%
5,000 or more	35%

Source: © Kaiser Family Foundation; reprinted in USA Today 4/19/06

Also read NCSL's:

- **Prescription Drug Bulk Purchasing report- 2006**
- **Universal Health legislation**
- **Submit a question to NCSL (Legislators & staff only)**

Uninsured: Analysis of the March 2005 Current Population Survey". EBRI, 8/05.

- "**Employers Willing to Do More to Cover Workers**" - Despite fast-rising health care costs, employers that offer health benefits to their workers say they are committed to the current employer-based health insurance system. Commonwealth Fund report, 11/06.

- "**Major Changes in Benefit Design: A Plausible Way to Control Costs**?" AcademyHealth 11/06

- "**Private Health Insurance: Number and Market Share of Carriers in the Small Group Health Insurance Market in 2004**," GAO provides updated information on the number of health plan carriers licensed in each state and the carriers' market share. The report notes that the median number of licensed carriers in the small group market per state was 28, while the median market share of the largest carrier was about 43% GAO, 10/05.
Private Health Insurance: Number and Market Share of Carriers in the Small Group Health Insurance Market, 2002, 3/02 *(Use for comparison to 2004)*

- "**Small Employers and Health Benefits: Findings From the 2002 Small Employer Health Benefits Survey.**" EBRI Issue Brief no. 253, 2/03.

- "**Coping with the health insurance blues**" - Chicago Tribune, 5/16/06

- **Small Employer Health Buying Pools - State Vendor List** (November 2005)

STATE EXAMPLES:

- **Florida Rolls Out Health Plan Comparison Web Site** -Florida has launched an insurance comparison Web site that allows residents to check the benefits and premiums for small employer health plans offered in the state, the *South Florida Business Journal* reported on June 26, 2006.

- **Idaho: 2006 "Quality Health Insurance Out of Reach for Small Businesses"** - This report provides an overview of the contributions Medicaid makes to the economy and the quality of life in Idaho. This analysis measures the economy-wide business activity, jobs, and income produced by Medicaid spending. Article: "**Small firms don't cover health**" 10/12/06.

- **Kentucky's House passed HB 445 & HB 380** in 2006, as the Insurance Coverage, Affordability and Relief to Small Employers (ICARE) Program to make health insurance more affordable for small employer groups; including state subsidies, aimed as a four-year pilot project for employer groups with 2 to 25 employees.

- **Montana businesses could be in line for health insurance.** Insure Montana is the program launched in January 2006 to begin addressing the problem of uninsured Montanans. This is a two part program that is designed to assist small businesses with the cost of health insurance, whether they have provided health insurance previously or not. 1) Small businesses with 2-9 employees that are currently providing health insurance to their employees are eligible for refundable tax credits. 2) For businesses that were previously unable to afford health insurance for their employees, Insure Montana provides health insurance coverage through a small business purchasing pool. Over 1550 small businesses are enrolled and 10,000 lives are covered under as of August 2007; there is now a new applicants waiting list due to funding constraints.

- **The New Hampshire Small Employer Health Reinsurance Pool** has selected Pool
Administrators Inc. as the Administrator for the New Hampshire Small Employer Health

Reinsurance
Pool. Small Employer Health Carriers will be able to reinsure with the pool effective January 1, 2006. [memo online]

- **New Mexico State Coverage Insurance** - a 2005 law for uninsured employed adults. A unique public–private partnership that provides affordable health insurance products for small employers (with 50 or fewer employees) who have previously been unable to afford coverage for their employees. Employers are expected to contribute $75 per employee per month, and employees pay premiums up to $35 per month and copayments.
Interview by SCI/AcademyHealth.

- **Ohio health care needs fix.** (Enquirer 5/14/06) Rep. Jim Raussen reported that SB 5 initially would have allowed small employers to offer health care plans that didn't include all of the state's coverage requirements, in hopes of creating a more affordable health insurance product for small businesses. Those so-called "mandate-lite" provisions have been removed from the bill because other states' experience showed few businesses bought the product, and the savings were only about 3 to 5 percent, Raussen said. Senate Bill 5 now mostly includes provisions to allow small businesses to create alliances to buy health insurance.

- **Oklahoma expanding small business health insurance program**. Governor Henry signed a law on June 4, 2007, targeting working Oklahomans by expanding "Insure Oklahoma," a program that helps small businesses provide health insurance for their employees. Under House bill 1225, the law will expand eligibility in the program from businesses with 50 employees to those with 250 or fewer workers. Under the program, the state pays 60 percent of the insurance costs, the employer pays 25 percent and the employee pays the remaining 15 percent. The bill also would expand eligibility in the program to workers who earn 185 percent of the federal poverty level to a 250-percent threshold,

The Oklahoma Employer/Employee Partnership for Insurance Coverage (O-EPIC) program was created to assist small businesses in offering their employees health insurance. Participating employers with 250 or fewer employees must contribute 25 percent of the employee's premium and must offer a qualified O-EPIC plan. The state funds 60 percent of the insurance costs, and the employee pays the remaining 15 percent. Participating employees have incomes below 250 percent of poverty. Qualifying O-EPIC plans are required to cover state-defined basic benefits and have maximum out-of-pocket spending limits.

Rhode Island Creates First "Stand-along" Required Cafeteria Plan. On July 3, 2007 Senate Bill 448 was signed into law, establishing a state-wide requirement that employers offer employees the opportunity to buy health insurance with pre-tax income. The state Insurance Commissioner notes that 39% of Rhode Island workers do not have access to employer-sponsored insurance. Neither the state nor employers are required to contribute to the purchase price, bu the state estimates a savings of "up to 40 percent" of the premium cost, depending on tax bracket. [7/3/07] NEW

- **CoverTennessee** - A market based public/private partnership plan for small employers and uninsured workers with incomes below 250 percent of FPL. ($25.5k /yr for 1; $51.6k for family of 4). uCover Tennessee is guaranteed access to basic, major medical coverage for $150 a month with the cost shared equally by the individual, employer, and state government. Tennessee tripled its tax on cigarettes to produce $239 million in new revenue for FY 2008. The premium for coverage is shared among the employer, employee, and state, with each party contributing 1/3 of the costs of the premium.

- In **Texas**, the Senate passed and a House committee gave favorable

recommendation SB 922, which would encourage counties to test models for small business coverage. Intended to maximize flexibility and local control, the legislation would enable county commissions to establish local or regional health-care programs, which could offer insurance or health services. The state Health and Human Services Commission would use general revenues to provide start-up grants to seven of these programs, which could include health savings accounts and high-deductible plans. The grants would average $150,000 each, for a total cost of $1.05 million in FY 2008. In addition, the local/regional programs could apply for additional funds from a "health opportunity pool," created under an 1115 waiver from Medicaid. It is expected that employers, employees and the state would jointly share the cost of premiums or health-care services. The programs would be required to allow any individual who receives state premium assistance to enroll.

- **Texas: Incentives could boost employee health care;** Senate studies tax breaks to help small firms provide insurance. The incentive under consideration will probably be in the form of larger tax deductions for companies that offer health care plans to their employees. -Dallas Morning News 2/1/07.

- **Utah: New Program Assists Uninsured to Get Health Coverage**. Beacuse of passage of HB276 in 2006, the Utah Department of Health launched a new rebate program for health insurance premiums that would reduce the number of uninsured citizens in Utah by helping workers pay for their employer- sponsored health insurance. Qualified workers can receive rebates up to $150 per adult and $100 per child to help pay the monthly premium of an employer-sponsored health care plan. HB276 provided $267,000 in state funding for the program and allows matching federal Medicaid money.

- **Washington Health Insurance Partnership.** 2007 law, HB 1569 establishes the Washington Health Insurance Partnership. Similar to the "Connector" mechanism created in Massachusetts, the Partnership will offer benefits administration to small employers that have at least one employee who earns less than 200 percent of the federal poverty level (FPL). The Partnership also will provide sliding-scale premium subsidies to individuals who earn less than 200 percent of the FPL. It also authorizes evaluating the inclusion of additional health insurance markets in the health insurance partnership and studying the impact of health insurance mandates. Became law 5/2/07 as Chapter No. 2007-260. NEW

- **West Virginia Small Business Plan** - A 2004 law (S.B. 143) intended to help uninsured small businesses provide coverage for their employees. Interview by SCI/AcademyHealth.

SUBSIDIZED ENROLLMENT: RESULTS ARE MIXED

In the summer of 2007, NCSL compiled an informal survey summary of actual numbers of residents who enrolled in state initiated small-business programs. Enrollment experience is different state-to-state. Historically, employer participation in government created subsidized programs has not been good. States have had more success with enrolling individuals at the employee level and not going through the employer. Participation is also very much related to outreach and marketing. Here is some information that I collected over that last year.The following are examples:

Iowa (1115 Medicaid Waiver)
Below is a short description of the Medicaid expansion program, Iowacares.

http://www.ncsl.org/programs/health/iamedicaid.htm

The program started in May of 2005 and the expansion population is now up to about 17,000.THe state appropriated about $65 million to the expansion program, and that money has been dived up among different programs. The Medicaid Director's office (515) 725-1123.

Here is the state page on Iowacares: http://www.ime.state.ia.us/IowaCare/index.html
MinnesotaCare is a Medicaid program with sliding scale premiums for uninsured families and adults below 275% FPL for families/175% childless adults. They cover about 135,586 people.
Montana's Insure Montana program for very small businesses has been relatively successful. It is very limited eligibility and has capped enrollment. See details in the attachment which was created in July 2006.
Healthy New York has anywhere between 110,000 and 200,000 people enrolled in their program. A small percentage of the people eligible but a good number of enrollees. See attachment.
Adult Basic Plan of Pennsylvania Provides subsidized health insurance coverage to low income adults under 200%. State contracts with four insurers to provide a basic benefit package.Enrollment is capped. Enrollment as of Jult 2006 was 50,600 people with over 100,000 people on a waiting list.
The Utah Primary Care program which is a Medicaid program that targets uninsured adults and provides primary care coverage (includes sliding scale premium and copays) is often close to the enrollment cap of 25,000.
Basic Health in Washington is a state-sponsored insurance product with sliding scale premiums offered through private managed care plans to individuals and families with incomes below 200% of FPL. The program covers about 100,000 enrollees each month with about 30,000 people on a waiting list.

- Compiled by R. Cauchi, NCSL Health Program-Denver. Enrollment data from Laura Tobler.

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